

## Recently Adopted Rule Summarized

Summarized below is information regarding an administrative rule that has been revised. Included is information concerning Tax 2.505, relating to the apportionment of net business income of interstate professional sports clubs. The effective date of the revisions is April 1, 2008.

In addition to a summary of the changes to the rule, the text of the revisions to the rule is reproduced. In the amendments, material lined through (~~lined through~~) represents deleted text, and underscored (underscored) material represents new text.

### **Tax 2.505 Apportionment of apportionable income of interstate professional sports clubs.**

This rule order prescribes the method to be used for apportioning the apportionable income of interstate professional sports clubs. It provides that the phase-in of the single sales factor apportionment formula will apply to professional sports clubs.

The text of the revisions to Tax 2.505 is as follows:

SECTION 1. Tax 2.505 (title) and (intro.), (1), (2), and (3) (intro.) and (d) are amended to read:

**Tax 2.505 Apportionment of ~~net business~~ apportionable income of interstate professional sports clubs.** The apportionable income of professional sports clubs engaged in ~~income-producing activities~~ business both inside and outside Wisconsin during the year shall be apportioned to Wisconsin using ~~an~~ the apportionment fraction ~~composed of a property factor representing 25% of the fraction, a payroll factor representing 25% of the fraction and a sales factor representing 50% of the fraction determined~~ described in s. 71.25 (6), Stats., and the apportionment formula computation described in s. 71.25 (6m), Stats., if applicable. The property, payroll, and sales factors described in s. 71.25 (6) and (6m), Stats., shall be determined as follows:

(1) PROPERTY FACTOR. The property factor is a fraction as defined in s. 71.25 (7), Stats. Owned or rented real and tangible personal property shall be included in the factor as provided in s. 71.25 (7), Stats., and s. Tax 2.39 ~~(3)~~ (4). Minor equipment, such as uniforms, and playing and practice equipment, need not be included in the factor.

(2) PAYROLL FACTOR. The payroll factor is a fraction as defined in s. 71.25 (8), Stats. Compensation shall be reported as provided in s. 71.25 (8), Stats., and s. Tax 2.39 ~~(4)~~ (5). Bonuses and payments shall be included in the payroll factor on a prorated basis in accordance with Internal Revenue Service Ruling 71-137, Cum. Bull., 1971-1. Compensation paid for optioned players shall be included in the factor only if paid directly to the player by the taxpayer.

(3) SALES FACTOR. The sales factor is a fraction as defined in s. 71.25 (9), Stats. Sales shall be included in the factor in accordance with s. 71.25 (9), Stats., s. Tax 2.39 ~~(5)~~ (6) and the following rules:

(d) *Player contracts, franchises, ~~etc.~~ and similar sources.* Income from player contract transactions, franchise fees, and other similar sources shall be excluded from the numerator and the denominator of the sales fraction.

**Note:** The provisions of s. Tax 2.505 first apply for taxable years beginning on January 1, 2005.